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increasing the Micro-Purchase Threshold and  
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Federal Acquisition Streamlining Act of 1994

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**NAVAL POSTGRADUATE SCHOOL  
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**THESIS**

**THE IMPACT ON THE PURCHASE CARD  
PROGRAM OF INCREASING THE MICRO-  
PURCHASE THRESHOLD AND SIMPLIFIED  
ACQUISITION THRESHOLD WITHIN THE  
FEDERAL ACQUISITION STREAMLINING  
ACT OF 1994**

by

Neal Patrick McMahon

December, 1995

Principal Advisor:

Sandra M. Desbrow

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**THE IMPACT ON THE PURCHASE CARD PROGRAM OF INCREASING  
THE MICRO-PURCHASE THRESHOLD AND SIMPLIFIED  
ACQUISITION THRESHOLD WITHIN THE FEDERAL ACQUISITION  
STREAMLINING ACT OF 1994**

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Submitted in partial fulfillment  
of the requirements for the degree of

**MASTER OF SCIENCE IN MANAGEMENT**

from the

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## **ABSTRACT**

This thesis examines the impact on the purchase card program of increasing the Micro-purchase Threshold and Simplified Acquisition Threshold within the Federal Acquisition Streamlining Act of 1994. A risk assessment will be conducted to compare purchase card programs of the respective Services within the Department of Defense. The thesis will emphasize the affect of the Federal Acquisition Streamlining Act of 1994 upon the management, policies, and procedures of the purchase card program. Moreover, barriers and possible difficulties in implementing the Simplified Acquisition Threshold within the purchase card program will be discussed. Lastly, recommendations will be proposed for successful implementation and guidance for using the General Services Administration Governmentwide Commercial Purchase Card Program.



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## I. INTRODUCTION

This thesis will review the Governmentwide Commercial Purchase Card Program and the procedures, responsibilities, and Navy-wide guidance regarding the program. For purposes of this thesis, the phrase "purchase card" is synonymous with "credit card." This research will evaluate the procedures and guidance currently in place within the Department of Defense (DOD) and analyze the Federal Acquisition Streamlining Act (FASA) of 1994's impact upon the Governmentwide Commercial Purchase Card Program.

### Governmentwide Commercial Credit Card Services FY 1993 Agency Data

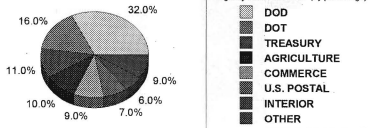
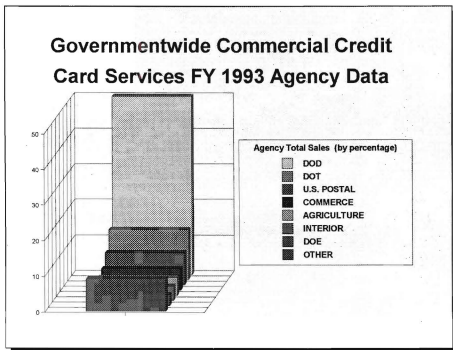


Figure 1

Analysis of FASA and specifically the increase in the Simplified Acquisition Threshold will be followed with recommendations for improving the purchase card program. For the purpose of this research, Federal agency commercial purchase card programs will be reviewed. Particular emphasis will be placed on DOD agency programs due to their significant impact and share of total sales and purchases within the commercial purchase card program (FY 1993 total DOD transactions and total sales were 490,101 and \$232,510,543, respectively. See **Figure 1** and **Figure 2** for graphical presentation by percentage). The Federal Acquisition Streamlining Act (FASA) of 1994 will be analyzed



**Figure 2**

using information gathered at the National Contract Management Association seminar along with pertinent publications distributed at the seminar [Ref 8][Ref 9] and insights gained through numerous interviews and surveys conducted with DOD acquisition policy personnel. In addition, the analysis is based on the draft and implemented rewrite of FAR Part 13 by the Simplified Acquisition Procedures/FACNET drafting team [Ref 13]. First hand implementation guidance was reviewed to gain insight into both the implementation process and FASA's ramifications within the Military Services.

## **A. RESEARCH QUESTIONS**

### **1. Primary Research Question:**

How will the Federal Acquisition Streamlining Act (FASA) of 1994 impact the current administrative procedures, policy, and responsibilities of the Governmentwide Commercial Purchase Card Program within the Department of Defense?

### **2. Subsidiary Research Questions:**

- a. How will the new Micro-purchase Threshold (\$2,500) and competition policy influence the current procedures, policies, and responsibilities of the Governmentwide Commercial Purchase Card Program within the Department of Defense?
- b. What risks does the Department of Defense face in administering and managing the Commercial Purchase Card Program after implementing FASA through Federal Acquisition Regulation (FAR) and Defense Federal Acquisition Regulation Supplement (DFARS)?

c. What are some recommendations for successfully implementing and using the General Services Administration (GSA) Governmentwide Commercial Purchase Card Program?

d. What barriers and possible difficulties will be encountered within the Governmentwide Commercial Purchase Card Program as a result of the increase in the Simplified Acquisition Threshold (SAT) (\$50,000/\$100,000) within FASA?

## **B. DISCUSSIONS**

The Simplified Acquisition Procedures/Federal Acquisition Computer Network (FACNET) drafting team was tasked on 3 October 1994 to prepare an interim rule implementing micro-purchase procedures in the Federal Acquisition Regulation (FAR), as required by the Federal Acquisition Streamlining Act (FASA) of 1994. FASA requires that micro-purchase procedures be implemented in the FAR not later than 60 days after the enactment date, which was 13 October 1994 [Ref 4]. Therefore, the implementing FAR language should have been drafted and incorporated in the FAR by 13 December 1994. However, due to the delay in receiving comments from field contracting activities within DOD and the numerous other related obstacles in making such a broad change in procedures, the implementation language was not incorporated by the 13 December 1994 deadline. Implementing FASA of 1994 within the FAR, and subsequently within the DFARS and Military Service doctrines, requires consciously considering both the underlying ramifications of increasing the Simplified Acquisition Threshold and the Micro-purchase Threshold and the ability of field contracting activities to adapt to such a broad procedural change. Furthermore, one has to wonder what the impact will be on

purchases transacted with the purchase card versus other procurement instruments for simplified purchases within DOD.

This thesis will analyze FASA of 1994's impact upon the Governmentwide Commercial Purchase Card Program and the procedures, responsibilities, and controls that have to be considered when implementing FASA within the Military Service field contracting organization. Through investigation, the implementation procedures will be assessed and conclusions drawn about the purchase card program's effectiveness for simplified acquisition purchases.

### **C. ASSUMPTIONS**

The reader is assumed to understand the basic Federal acquisition process and the common terms associated with the contracting process. The reader should have a working knowledge of the Federal Acquisition Regulation (FAR) and the small purchase procedures delineated in FAR Part 13. The reader should also understand the basic changes in FASA of 1994 and the resulting major procedural changes within the FAR and DFARS. For reference, Appendix A provides a list of the pertinent acronyms and their meanings in this thesis. Definitions will be elaborated where appropriate to clarify their meaning within the thesis. Lastly, it would be helpful to understand the DOD small purchase guidance, such as DFARS and numerous Military Service instructions, but this knowledge is not necessary to understand (or follow) this thesis.

### **D. DEFINITIONS**

**Agency/Organization Program Coordinator (APC)** - An individual designated by the ordering agency/organization to perform contract administration within the limits of

delegated authority. This individual shall have overall responsibility for the Governmentwide Commercial Credit Card Service Program within his/her bureau, agency/organization or region and may select the approving officials and cardholders.

**Approving Official** - An individual who has under his/her purview a number of cardholders. The approving official is responsible for reviewing his/her cardholders' monthly statements and verifying that all transactions made were for necessary Government purchases and in accordance with the Federal Acquisition Regulation (FAR). Other duties may be delegated as agencies/organizations see fit. The Government uses the approving official concept in the commercial credit card program for internal control purposes. The approving official provides a critical checkpoint by reviewing the cardholder's transactions to ensure that transactions are necessary and for official Government purposes only. The approving official is usually the cardholder's immediate supervisor.

**Billing Cycle Purchase Limit** - The spending limit imposed on a cardholder's cumulative purchases in a given billing cycle. Any purchase limit may be assigned in increments of \$100 up to \$999,900. This limit may be adjusted as agencies deem appropriate and shall be established for each cardholder account.

**Cardholder** - Any individual designated by an agency/organization to be issued a card. The card bears the individual's name and can be used by an individual to pay for official purchases in compliance with agency/organization internal procedures.

**Cardholder's Statement of Account** - Within five working days after the end of each monthly billing cycle, the bank will send each cardholder a Statement of Account

which lists all transactions made during the current billing cycle.

**Designated Billing Office** - The office designated by the ordering agency/organization to receive the official invoice and, in some instances, make payments against the official invoice.

**Dispute Office Contact** - The person designated by the ordering agency/organization to assist the agency/organization and the bank in tracking and resolving disputed purchases or transactions.

**International Merchant Purchase Authorization Card (IMPAC)** - The official Governmentwide credit card. The abbreviation "I.M.P.A.C." is printed on all credit cards and will also appear on most forms provided by the Rocky Mountain Bank Card System (RMBCS).

**Micro-purchase** - An acquisition of commercially available supplies, the aggregate amount of which does not exceed \$2,500.

**Rocky Mountain Bank Card System (RMBCS)** - The system that maintains all IMPAC accounts; issues IMPACs to cardholders; sends monthly statements to cardholders, approving officials, and finance offices; pays merchants in a timely manner; and receives reimbursement from the defense accounting offices.

**Single Purchase Limit** - A single purchase dollar limit assigned to each cardholder by the ordering agency/organization. The single purchase limit may be up to \$100,000, entered in increments of \$50. This limit may be adjusted as agencies deem appropriate and shall be established for each cardholder account.



## **E. SCOPE OF THE THESIS**

The thesis will focus on the policy and management aspects of DOD's Governmentwide Commercial Purchase Card Program. The thesis will not address the impact that increasing the Micro-purchase and Simplified Acquisition Thresholds has on DOD's procurement workforce. The research will devote particular attention to FASA's procurement workload, administration, and policy guidance impact on the purchase card program within DOD. It is important to point out that implementation language has been drafted to include in the FAR during calendar year 1995. In addition, the thesis will analyze how FASA of 1994 will ultimately influence the current legislation (e.g. FAR, local instructions, notices, etc.) as it pertains to the Governmentwide Commercial Purchase Card Program. The thesis will review existing policy, procedures, and responsibilities of the Governmentwide Commercial Purchase Card and outline specific areas that will change under FASA. Particular attention will be given to the increase in the Simplified Acquisition Threshold and the guidance with regard to FASA 1994, Section 4301, P.L. 103-355 addressing micro-purchase procedures [Ref 8: p. 134].

## **F. METHODOLOGY**

This thesis relies primarily on interviews with procurement personnel managers at various DOD activities (e.g. Navy Fleet Industrial Supply Centers, Army installation contracting activities, Air Force field contracting activities). Interviews were conducted with representative personnel within DOD and the ultimate changes to the Governmentwide Commercial Purchase Card Program were discussed. In addition, the research involved a questionnaire, video conferencing, and data calls. The research

will analyze FASA's impact on the purchase card program. Travel to selected sights provided data through interviews, observational procedures, and first-hand documentation. Moreover, the research reviewed satellite broadcasts and one-on-one video teleconferencing concerning the revised simplified acquisition procedures. Numerous attempts were made to incorporate feedback from DOD contracting activities as appropriate within the context of this research. Requests for impact data addressed issues such as: current program guidance in effect; local internal control procedures and the effect of increasing the Micro-purchase Threshold upon procurement personnel within the small purchase contracting activity; the preference for the commercial purchase card for all purchases within the Micro-purchase and Simplified Acquisition Threshold; the effect the Purchase Card has on the workload within the field contracting activity. Appendix B and Appendix C provide copies of questionnaire and telephone interview questions.

Contracting activities specializing in small purchase transactions were the primary focus, with equal consideration given to afloat and ashore activities. The research relied on transaction cost data accumulated by the Naval Supply Systems Command Headquarters for the purchase card program within the Department of the Navy (DON). In addition, the research reviewed current legislation, policy, and procedures and analyzed and outlined the new legislation enacted through FASA of 1994. Interviews were conducted with representative personnel within DOD to review the ultimate changes to the Governmentwide Commercial Purchase Card Program. Particular emphasis will

be given to interviewing the Simplified Acquisition Procedures/FACNET drafting team members for implementing FAR language to incorporate FASA in calendar year 1995.

Lastly, as result of data collected and information accumulated, the research draws conclusions as to the ramifications that FASA of 1994 has on the purchase card program. The data collected provides a sound foundation to describe FASA of 1994's impact upon the program. The insight gained from the team members was invaluable for analyzing the purchase card program. The Military Services within DOD are unique but tend to implement and interpret similarly when one compares the different guidelines promulgated within the Services. DOD's purchase card use and effectiveness was evident after collecting and analyzing the data. It is easier to draw conclusions and make recommendations after thoroughly analyzing and assimilating the data.

#### **G. BENEFITS OF THE STUDY**

This thesis evaluated the implementation of the FAR Part 13 language as a result of FASA of 1994. This thesis will draw conclusions and make recommendations through a risk assessment of each Service's purchase card program. The Department of the Navy and other Military Services will be able to use these findings as a learning tool for future implementation rewrites, particularly relating to simplified acquisition procedures. FASA of 1994 is only the beginning of a multitude of changes that will be incorporated within the existing DOD instructions and supplements. This thesis will outline specific recurring problem areas and offer recommendations to overcome some of these barriers and obstacles to implementation. In addition, specific areas of strengths and weaknesses within the purchase card program will be addressed for future reference when

implementing follow-on policy guidance. The strengths and weaknesses within the purchase card program today will be assessed as they relate to implementing FASA of 1994. Specifically, the strengths and weaknesses will be analyzed to improve the program's implementation guidance.

## **H. ORGANIZATION OF THE THESIS**

Chapter I discusses the purpose and direction of the research paper and the scope of the research and methodology. Chapter II will provide background information concerning the Governmentwide Commercial Purchase Card Program. A brief history will be presented. Chapter III describes the methods used to collect data along with responses from questionnaire and telephone interviews. Chapter IV analyzes the questionnaire and telephone interview research questions based on the information presented in Chapter III. Lastly, Chapter V will provide recommendations and conclusions based on the analysis presented in Chapter IV. This will be followed by appropriate appendices as they relate to the data collected and analyzed.



## II. BACKGROUND

### A. HISTORY OF GOVERNMENTWIDE COMMERCIAL PURCHASE CARD

The Governmentwide Commercial Purchase Card Program was created as a procurement reform initiative under Executive Order 12352, "Procurement Reform" [Ref 2: pp. 6-7]. The program was originally sponsored by the Department of Commerce in 1986 as a pilot program for Governmentwide implementation. It was considered a simplified procurement method which reduced paperwork and improved cash flow. GSA was tasked by OMB for Governmentwide administration and service contracts. GSA awarded the Government contract to the Rocky Mountain Bankcard System (RMBCS), a subsidiary of the Colorado National Bank [Ref 3]. The contract award provided VISA cards for the entire Government starting in November 1988. The VISA cards were guaranteed for one year with annual renewal options for four subsequent years.

The official title for the Governmentwide Commercial Purchase Card Program is the International Merchant Purchase Authorization Card (IMPAC). The VISA credit card is distinctively designed and identified for official Government use with an identifying logo. The credit card program was developed to alleviate some of the contracting burden and to provide an alternative to other small purchase procurement methods such as imprest funds, blanket purchase agreements, or purchase orders. The IMPAC program began in 1987, when the Office of Management and Budget (OMB) asked GSA to provide commercial credit cards for Government agencies to make small purchases. The

request for proposals went out, and GSA awarded the contract to Rocky Mountain Bankcard System in 1989 [Ref 8]. Rocky Mountain, which again won the contract when it was recompeted in 1993, provided VISA cards, management reports, and program support to Government agencies choosing this method of purchasing commercial goods and services. Currently, the Governmentwide Commercial Credit Card can be used worldwide for small purchases of less than \$2,500 (Micro-purchase Threshold). However, individuals may be delegated authority up to \$50,000/\$100,000 (with certified FACNET system). Both procurement and nonprocurement personnel have the ability to benefit and use the purchase card if agency requirements are met. These purchases are for commercially available items that can be delivered for immediate use.

In the program's first year, 12,000 employees held cards, representing 246 offices in 30 agencies [Ref 8]. They charged just over \$9 million in fiscal year 1989 [Ref 8]. The program has grown each year. In fiscal year 1994, it boasted 89,000 credit-card holders from more than 3,600 offices in 66 Government agencies [Ref 9]. These people conducted 2.5 million transactions worth \$808.5 million [Ref 8]. The average purchase had a value of about \$300.

Currently, GSA's contract provides commercial credit card services that streamline payment procedures and reduce administrative costs. The cards are designed to improve Government cash management practices, provide procedural checks, and improve management control. Nine in ten transactions were accomplished by mail or telephone. Agencies commonly use the credit cards to buy office products, computer hardware and software, tools, building supplies, subscriptions to periodicals, and electronic equipment.

The card cannot be used for cash advances from ATMs or banks, or to rent or lease buildings or for telecommunications services under the FTS 2000 contract.

The credit card does not replace other procurement methods, such as purchase orders or blanket purchase agreements (BPA), but offers an alternative to normal simplified acquisition procurement instruments. The cardholder must also comply with existing controls within the FAR or local agency regulations. For example, the cardholder is still restricted in purchasing automated data processing equipment (ADPE) and plant property. The VISA card does provide a more efficient and less costly way to purchase items below the Micro-purchase Threshold of \$2,500. In addition, the card is not to be used for travel, meals, or lodging. It is primarily reserved for obtaining goods and services. However, DOD and specifically the Military Services have restricted the use of the purchase card even further than required by GSA (e.g. restrictive card use for purchased services).

Lastly, participation in the GSA Governmentwide Commercial Purchase Card Program had been voluntary for all Government activities, but this has recently changed. The National Performance Review and FASA of 1994 contain strong language that requires using the card to the maximum extent practicable for Micro-purchase Threshold and Simplified Acquisition Threshold purchases.

Currently, purchases made above the Micro-purchase Threshold of \$2,500 are subject to Simplified Acquisition Threshold provisions established in the FAR Part 13, including the requirement to obtain adequate competition and to provide accompanying contract documentation. As an alternative small purchase procurement method, the



IMPAC purchase card was initially setup to replace the SF-44 and imprest fund buys. However, it may be used in lieu of purchase orders or BPA calls if authorized by the contracting officer and the requisite cost/benefit analysis permits. The card will not be used under any circumstances for cash advances even if for official Government use.

## **B. NATIONAL PERFORMANCE REVIEW**

In the National Performance Review, supported by Vice-President Al Gore and Steven Kelman, director of OMB's Office of Federal Procurement Policy, all Government agencies are strongly urged to use the card. Congress endorsed the IMPAC program and strongly encouraged agencies to use it in FASA. Agencies were told they should use the card for most purchases under \$2,500 (Micro-purchase Threshold) with the exception of mandatory-source purchases and purchases exempt under agency-specific regulations. Savings have been estimated at \$54 per transaction over the traditional paper-based procurement method.

The Government savings has been a major area of contention within DOD, particularly as it pertains to the annual budget submission. The DOD Comptroller has adjusted Service budgets based on the estimated savings from using the IMPAC card within the Service field contracting activities. This has generated discussion about the realized savings attributable to the card. The purchase card program has been acknowledged by Defense Department management and Congress to be a viable cost saving and paperwork reduction procurement instrument. However, many Service acquisition officials contend that the actual savings is much less than \$54 per transaction.

The NPR encourages empowering nonprocurement Government employees to buy common supplies and services. A primary goal of the NPR was to improve the Government by making operations more efficient. The recommendations of the Defense Performance Review (DPR) were to empower any properly delegated individual to make small purchases. Therefore, nonprocurement personnel were encouraged to receive small purchase contracting authority.

**C. ACQUISITION REFORM: FEDERAL ACQUISITION AND STREAMLINING ACT (FASA) OF 1994 SECTIONS 4001, 4002, 4004, 4201, 4301**

In FY 1994, the Department of Defense accounted for over 50 percent of total sales and 32 percent of all purchases within the Government. Actual sales figures for FY 1993 were \$472,000,000 of which DOD accounted for \$232,000,000. Total purchases were 555,000 of which DOD contributed 272,000. The Army was the leader within DOD with \$111,000,000 in total sales and 55,000 total purchases.

Many changes were incorporated within the new FASA legislation which directly influence the Governmentwide Commercial Purchase Card Program. The first major area to be addressed is the Simplified Acquisition Threshold under Sections 4001 and 4002. The Act raises the "Small Purchase Threshold" to \$100,000 and redesignates it as the "Simplified Acquisition Threshold." However, the threshold is only raised to \$50,000, until contracting activities develop certain electronic capabilities under the Federal Acquisition Computer Network (FACNET). The increase in the threshold will greatly increase productivity while decreasing paperwork and procurement lead time.

The next area of interest is Section 4004 of FASA, which addresses the small business reservation. All procurements between \$2,500 and \$100,000 are reserved for small businesses. Set-asides for small disadvantaged businesses continue from \$0 to \$100,000. Eliminating the small business reservation up to \$2,500 allows Government activities to increase their credit card purchases, while augmenting competition by including large businesses. However, small disadvantaged business (SDB) set-asides will continue regardless of the dollar amount of the purchases. The Act also states that contracting officers may not divide purchases to get under the \$100,000 threshold. The \$50,000 threshold is effective immediately; the \$100,000 threshold is effective when a procuring activity becomes FACNET certified.

The Act establishes specific procedures for purchases below the Micro-purchase Threshold. Section 4301 is one of the most critical changes in the entire bill, particularly with respect to the Governmentwide Commercial Purchase Card. Specifically, the Act establishes a Micro-purchase Threshold of up to \$2,500. Section 4301, Sec. 32, Procedures Applicable to Purchases below the Micro-purchase Threshold, of FASA of 1994 states [Ref 8: pp. 134-135]:

Purchases Without Competitive Quotations.-- A purchase not greater than \$2,500 may be made without competitive quotations if the contracting officer determines that the price for the purchase is reasonable.

In addition, the Buy American Act does not apply to any micro-purchases. This section of the law is effective upon enactment, and must be implemented in the FAR

within 60 days of enactment or by 13 December 1994. Furthermore, Section 4301 of FASA of 1994 [Ref 8: pp. 134-135] will allow maximum use of the credit card since it virtually eliminates all paperwork and drastically speeds up the procurement system.

The Act further states that:

The head of the contracting activity concerned (or a designee of the head of the contracting activity concerned) determines that the duties of the position of that officer, employee, or member are such that it is unlikely that the officer, employee, or member will be required to conduct procurements in a total amount greater than \$20,000 in any 12-month period.

This will allow nonprocurement personnel to make micro-purchases without becoming procurement officials, provided their individual aggregate purchases do not exceed \$20,000 in a 12-month period.

The sections delineated above are particularly important for the commercial purchase card program, since the Micro-purchase Threshold significantly impacts the program. The law immediately affected the way in which all activities "do business" and provided more latitude with regard to small purchase procurement methods. Micro-purchases will be completed by credit card transactions, with virtually no paperwork, oversight, or statutory impediments over the contracting activity by the responsible agency.

Likewise, immediately increasing the Simplified Acquisition Threshold to \$50,000, and to \$100,000 after implementing certified FACNET electronic contracting capabilities, greatly reduces paperwork, clauses, provisions, and many flowdown requirements.

The amount of small purchase transactions will increase exponentially as the Simplified Acquisition Threshold is raised. Eliminating the small business reservation for transactions up to \$2,500 will dramatically increase the credit card usage within the Government. Small businesses must recognize that the competition in this individually small, but collectively gigantic segment of Government contracting will increase drastically. A quote from a Minority Opinion written by the Department of Transportation proposing broadening FAR Part 13 to include FAR Part 16 contract types, illustrates the impact FASA will have on small purchase procedures [Ref 12: p. 1]:

For all practical purposes, what we have known to be "small purchases" is drastically changed under FASA, P.L. 103-355. For instance, government small purchase personnel have generally dealt with contractors in their local area; contractors whose performance had been proven over the years. Of course, they were required to expand the number of contractors they dealt with through maximum practicable competition (generally defined as three quotes) for purchases exceeding \$2,500, but not exceeding \$25,000, but that was still generally accomplished in their local area. Under FASA, soliciting three quotes in the local area is no longer the preferred way of doing business for purchases exceeding \$2,500, but not exceeding the Simplified Acquisition Threshold (\$50,000 without FACNET, \$100,000 with certified FACNET).

In prepared testimony, Steven Kelman, Administrator for Federal Procurement Policy, Executive Office of the President, Office of Management and Budget, before the House Committee on Government Reform and Oversight United States [Ref 9] stated:

You should know that we have already begun to take advantage of those authorities that became effective upon

FASA's enactment. Two such provisions---one which permits the conduct of procurement under \$2,500 ("micro-purchases") as a virtual paperless transaction is an important facet of our streamlining program. The micro-purchase authority is helping facilitate the widespread use of commercial bank cards--what we call purchase cards--which is making these purchases quick, easy, and inexpensive, as they should be. Most of FASA's benefits cannot be realized until implementing regulations are in place.

A byline by Mark Amtower, president of Amtower & Co. Federal Direct Marketing in Ashton, Md [Ref 9] states:

Another program that has been quietly saving money is the International Merchant Purchase Authorization Card (IMPAC) program for small purchases by federal agencies. It is a "win-win" program that saves both agencies and their suppliers time and paperwork (and thus money). And it costs the Government nothing, since the supplier of the VISA credit cards that government employees use through the program does not charge a fee.

#### **D. IMPLEMENTING THE COMMERCIAL GOVERNMENTWIDE PURCHASE CARD PROGRAM IN DOD**

On 3 October 1994, the Simplified Acquisition Procedures (SAP)/FACNET drafting team was tasked to prepare an interim rule implementing micro-purchase procedures in the Federal Acquisition Regulation (FAR); the Federal Acquisition Streamlining Act of 1994, Section 4301, P.L. 103-355 required that the micro-purchase procedures be implemented in the FAR not later than 60 days after enactment, which was 13 October 1994.

The drafting rule on simplified acquisitions was coordinated with the drafting teams for Small Business, Contract Award, Commercial Contracting, and Contract Finance. Draft FAR coverage was received by the SAP/FACNET committee for coordination and incorporation in the FAR. As of the writing of this thesis, the draft FAR implementation language was distributed to various agencies/organizations within the Government for comment by 30 July 1995. Incorporating comments and revising the FAR should occur shortly thereafter and final implementation language was scheduled to be incorporated around 30 September 1995.

As a consequence of the National Performance Review, the Under Secretary of Defense for Acquisition and Technology (USD A&T) issued a Memorandum for Secretaries of the military departments and numerous other DOD agencies and offices that discussed implementing the Small Purchase Contracting Authority Under the Defense Performance Review. This memorandum recommended that a \$2,500 threshold be imposed for the credit card. However, the memorandum outlined that only qualified individuals should be empowered under this policy memorandum. Specifically, they must possess the basic qualifications for the GS-1105 purchasing series and have completed the required procurement course work. Mandatory Government training should include Purchasing Fundamentals or Operational Level Purchasing and Intermediate Purchasing. They should also be fully responsible and accountable for all actions taken under their contracting authority. Lastly, the Federal Acquisition Regulation (FAR) and Defense Federal Acquisition Regulation Supplement (DFARS) requirements have to be met.

Appropriate oversight by procurement personnel was emphasized through periodic review by management personnel to ensure integrity in the procurement system.

**E. WEAKNESSES: CURRENT PURCHASE CARD PROGRAM**

The purchase card program continues to be a viable alternative to other micro-purchase acquisition methods. However, there are drawbacks to overcome if the current system is to become the preferred choice among micro-purchase procurement methods. The administrative burden and internal controls have hindered many DOD card users. In addition, the purchase card's bill-paying and reconciliation process continues to be cumbersome and needs to be standardized and refined so transactions can be easily traced from purchase to bill reconciliation.

Moreover, the purchase card training program for procurement and nonprocurement personnel is improving, but lacks tailored training for all Services. The individual Services within DOD acknowledge that training is a high priority but have not promulgated a standardized training plan for all purchase card users within DOD. As of this writing, the Departments of the Air Force and the Navy have promulgated implementation guidance to incorporate in program management instructions. The Department of the Army is in the process of writing implementation guidance, but has distributed a letter of instruction as an interim measure.

**F. MANAGING THE GOVERNMENTWIDE PURCHASE CARD PROGRAM**

Managing the purchase card program is a cumbersome process. Managers need to be aware that internal controls are in place within the program and that there are



penalties for noncompliance with the internal controls. The mere fact that a merchant accepts the purchase card for the order does not authorize/justify the order. The appropriate and proper use of the purchase card always remains the individual cardholder's responsibility. Intentional use of the purchase card for other than official Government business is considered fraud against the U.S. Government and may result in immediate cancellation of an individual's card and disciplinary action. The cardholder is personally liable to the Government for the amount of any non-Government orders. Under 18 U.S.C. 287, misusing the purchase card could result in a fine of not more than \$10,000 or imprisonment for not more than five (5) years, or both. One should not lose sight that under FASA of 1994 and the policy memorandum issued by USD (A & T), nonprocurement personnel are authorized to receive limited warrants up to \$25,000. The USD (A&T) recommended limiting initial warrants to other than procurement personnel at \$2,500. Contracting offices have to be aware that limited warrants and contracting authority authorized for nonprocurement personnel can require increased oversight and management responsibility.

Internal review of local operating and simplified acquisition procedures should be conducted by appropriate management personnel and a report should be made to the organizational Agency Program Coordinators (APC). APCs should initiate appropriate action. Requisitioners, Cardholders, and Approving Officials should be aware of the semi-annual review required for purchase card orders of the using activity.

## **G. FUTURE DEVELOPMENTS OF THE PURCHASE CARD PROGRAM**

The purchase card program has received numerous accolades from high officials within the Government. Since the inception of the National Performance Review, the credit card program has received publicity and support within DOD as the preferred acquisition instrument for micro-purchases. FASA of 1994 reemphasized the importance of streamlining procurement; the credit card is seen as a viable alternative for this purpose. It is considered an inexpensive contracting method.

The FAR has been changed to incorporate many of these new ideas and has taken criticism for not detailing the specifics of the purchase card program for agency use. The individual Services have initiated implementing instructions for Service use and to promulgate the purchase card program changes resulting from FASA. Highlighted areas include the purchase card training program requirements, purchase card a preferred method of payment for acquisitions below the Simplified Acquisition Threshold of \$100,000, and finally the preferred procurement instrument for acquisitions below the Micro-purchase Threshold of \$2,500.

DOD has recognized that improvements are necessary with respect to better management, processing, training, and procedural guidance as the purchase card becomes more prevalent for purchases at the Micro-purchase Threshold. Likewise, DOD has discovered the added benefits of the credit card as a payment vehicle for all transactions below the Simplified Acquisition Threshold. Improvements with respect to procurement techniques and local procedures have been promulgated through Service instructions and implementing language.

## **H. SUMMARY**

The intent of this chapter was to help the reader understand how the purchase card program was developed, the philosophy behind its inception, and its current form. A brief chronological history was presented, outlining the pertinent events and history of the purchase card program. The Federal Acquisition Streamlining Act (FASA) of 1994 reformed the written procedures, policies, and regulations pertaining to the purchase card program. The NPR, led by Vice-President Al Gore, also affected the purchase card program and its use within DOD field contracting activities, both afloat and ashore. The NPR and FASA's ultimate goal was to streamline the procurement process by making the process more efficient and effective.

Chapter III will present and discuss the results of the purchase card program questionnaire and telephone interviews that were conducted with DOD field contracting activities. The questionnaire responses and interviews will be the basis of the data presented in Chapter III. Along with these data, Chapter III will present, in summary format, the results of the data calls and video teleconferences concerning FASA of 1994 and the purchase card program.

### **III. PRESENTATION OF DATA COLLECTED**

This chapter focuses on the current data collected regarding the purchase card. Interviews were conducted with many Department of Defense employees closely associated with the Governmentwide Commercial Purchase Card Program and with the Simplified Acquisition Procedures/FACNET drafting team. Other interviews were conducted with members of the original drafting team assigned by the Department of the Navy in 1988. The questionnaire was distributed to field contracting activities within DOD. Randomly selected contracting personnel within DOD were asked to complete the questionnaire and interview questions in addition to commenting on FASA implementation throughout DOD. The data presented in Chapter III will be analyzed in Chapter IV.

#### **A. METHODOLOGY OF PURCHASE CARD PROGRAM QUESTIONNAIRE**

Written surveys were sent to 125 activities within DOD. These activities represent both large field contracting offices located at major installations as well as small field contracting offices within bases, installations, and ashore activities. Randomly selected afloat activities were asked to comment on the validity of the program within DOD. The survey, which consisted of 10 questions, was constructed to obtain pertinent and meaningful information regarding the DOD purchase card program. The survey addressed issues such as FASA's implications for the purchase card program and the influence of increasing the Micro-purchase Threshold and Simplified Acquisition

Threshold upon the purchase card program. The intent is to gain insight into the policy and procedural guidelines with respect to managing the purchase card program.

Implementation questions addressed FASA's impact upon the purchase card program.

The surveys were mailed en-masse to a point of contact at each command. These personnel were either the contracting officer or the Agency Program Coordinator (APC) within the activity. Objectivity was the key to meaningful results. In order to obtain meaningful results, the survey assured complete anonymity and did not request any information concerning the individual. The activity name was the only item that distinguished one questionnaire or answer from another.

Surveys were mailed out the last week of July, 1995 and respondents were requested to complete the survey and return them no later than close of business August 31, 1995. Those surveys received by September 15, 1995, were actually included in the results. The number of surveys returned was satisfactory; of the 125 surveys distributed, 75 were returned prior to the August 31, 1995, cut-off date. Thus, it seems that the sample size was adequate for a purposeful discussion and analysis of the data. A copy of the questionnaire distributed to field contracting activities is provided in Appendix B.

## **B. SURVEY RESULTS (QUESTIONS FOLLOWED BY RESULTS)**

### **1. Question 1.**

How has the increase in the Micro-purchase Threshold (\$2,500) and Simplified Acquisition Threshold (SAT) (\$50,000/\$100,000) within the Federal Acquisition Streamlining Act (FASA) of 1994 impacted the use of the purchase card within your activity?

## **2. Results.**

This question determined FASA's impact upon various activities within DOD. Specifically, was there an increase in the volume of purchases transacted or the total sales dollars for the purchase card program? Most of the replies to the questionnaire stated that there was an increase in purchases from large businesses under \$2,500. Most activities surveyed also indicated an increase of single items purchased and orders processed, by approximately one percent and 18 percent, respectively. The increase in orders processed was due primarily to awarding individual orders directly to large businesses versus combining several single, small business transactions through a mass distributor. The increase in orders processed gives the appearance that more work was completed. In actuality, the workload was reduced due to the savings in paperwork and competition.

Prior to FASA, many cardholders were limited to thresholds below the \$20,000 yearly limit, particularly cardholders who had not received appropriate training. Subsequently, many activities have rewritten local instructions to increase the Micro-purchase Threshold and have increased purchase card use as a result. Many activities also increased the limit of yearly purchases as a result of FASA. Using the purchase card reduces paperwork, which more than offsets the paperwork generated for the additional purchases.

Many activities recognize that the purchase card is a viable alternative for micro-purchases and simplified acquisitions since they are no longer subject to the Small Business Act and Buy American Act. This has reduced paperwork and facilitated the

bankcard program for the cardholder and subsequently the customer. It was evident from the survey that FASA streamlined micro-purchases within DOD. Several activities had asserted that the threshold within their activity had been set at \$2,500 for all cardholders, but maintained that contracting officers could exceed the \$2,500 purchasing limit at any time. Waiving the Small Business Act and Buy American Act for purchases below the micro-purchase level has significantly reduced Procurement Administrative Lead Time (PALT). In addition, surveys indicated that small businesses were more likely to accept credit cards after FASA because they no longer received guaranteed small business set-aside purchases. Small business set-asides were defining the customer base for most small businesses.

Activities continue to use the purchase card the most for micro-purchases. The increasing purchase card volume appears likely to continue into the future. Less paperwork and more user-friendly guidance has streamlined the micro-purchase process. Simplified acquisitions tend to be less affected by FASA as activities are beginning to implement Electronic Data Interchange (EDI) and FACNET.

However, simplified acquisitions continue to be more cumbersome, especially for transactions above the micro-purchase level, as agencies have retained restrictions and paperwork for these transactions. Traditional contract clauses, competition and small business set-asides continue to complicate the procurement process for transactions above the micro-purchase level making the purchase card less appealing for many contracting officers. It is not surprising that increasing the SAT has not affected purchase card use

dramatically, considering that FASA has not alleviated the restrictions above the Micro-purchase Threshold.

Lastly, many respondents to the survey indicated that FASA has promoted the customer to use the card rather than purchasing personnel. The increase in the Micro-purchase Threshold has allowed many activities to expand card use to nonprocurement personnel, i.e. the customer. One Army installation has implemented a policy whereby all credit card transactions under \$2,500 are conducted by the customer instead of the contracting office. More emphasis is being placed on more complex contracts, such as Requirements Type and Indefinite Quantity contracts. The customer no longer has to process a procurement request or obtain a document number.

To summarize, all procurement actions for expendable items that are under \$2,500 can be purchased by credit card. However, simplified acquisitions exceeding \$2,500 are still being purchased through normal methods. EDI transactions are also being conducted using the credit card as long as the transactions are consistent with applicable guidelines.

### **3. Question 2.**

What purchase card program policies were/will be revised within your organization as a result of FASA? (Procedures or changes? Responsibilities modified?)

### **4. Results.**

This question elicited comments about FASA's impact on the purchase card program, specifically with regard to the Simplified Acquisition Threshold and Micro-purchase Threshold procedures. These impacts would be reflected in local procedures



and instructions within contracting activities across DOD. There were a multitude of comments ranging from no impact to a significant impact.

FASA represents a revolution in Federal contracting, casting aside tight controls and strict codes of contracting conduct. The Act sets up a new procurement category, called micro-purchase, for procurement actions ranging from \$0 to \$2,500. This system depends heavily on credit card transactions, with virtually no paperwork, oversight, or statutory impediments. As a result, many of the offices have implemented the revised program without waiting for implementation guidance from DOD or the Military Services. In addition, many Department of the Army (DA) contracting installations have stated that DA has eliminated the requirement to report micro-purchases to the Federal Procurement Data System (FPDS) if the purchase was made with the Governmentwide Commercial Purchase Card. This eliminates the need to enter each action into the Standard Army Automated Contracting System (SAACONS). This will reduce time and oversight when making micro-purchases using the credit card.

Many Department of the Navy (DON) contracting activities have changed local procedures to accommodate nonprocurement personnel utilizing the purchase card. Most activities reported that the biggest users of the card were nonprocurement personnel. Activities began to utilize the card for more purchases in lieu of imprest fund and BPA acquisitions. In addition, the latest Naval Supply Systems Command Interim Instruction 4200.85C outlines shore and fleet simplified acquisition procedures and micro-purchase procedures. There is a section within this instruction which specifically addresses the purchase card.

A number of respondents stated that FASA eliminated the need to document small business set-asides and compliance with the Buy American Act. Subsequently, many local instructions have deleted the requirement for small business competition under the Micro-purchase Threshold. Large businesses provide sufficient competition and will be receiving a larger share of the micro-purchases. Many activities have commented that many small businesses are attempting to gain a larger market share through advertising in response to large business competition. Likewise, many Air Force contracting activities stated that local procedures were changed to reflect the newest requirement within FASA: only one solicited quote is required for micro-purchases if the quote is deemed to be "fair and reasonable."

Training procedures were revised in many DOD activities as contracting officers realized the need to train personnel to make credit card purchases above the Micro-purchase Threshold. Most activities surveyed maintained a threshold for purchases at \$2,500, except for a select few who received adequate training in proper techniques for simplified acquisition buys. Before DOD guidance was issued, many activities required training for all nonprocurement personnel regardless of the monetary limit imposed, and revised local procedures to reflect this concern. Many activities required procurement and nonprocurement personnel to attend periodic training based upon their annual monetary limit and threshold. This meant issuing more user friendly procedural guidance for nonprocurement personnel since they represent a larger share of DOD's total micro-purchases.

Revised program policies were kept to a minimum for many activities, as FASA established new thresholds. Many activities had already incorporated FASA's changes. Some activities reported negligible differences in procedural guidance since local guidance had promulgated the \$2,500 threshold long before FASA was enacted into law. Air Force, like Navy, issued interim guidance incorporating FASA implementation language. Likewise, many contracting activities revised local procedures to conform to Military Service specific guidance.

**5. Question 3.**

How has the purchase card program administering effort changed within your organization as a result of FASA?

**6. Results.**

This question investigates the increase in the administrative burden for the Agency Program Coordinator (APC) within the contracting activity. In most of the surveys received, the survey was forwarded to the APC by supervisory personnel within the organization. The APC made pertinent comments concerning the administrative difficulties encountered and the additional workload needed to implement FASA changes. Some APC respondents commented that there were no administrative changes since the credit card limit had been set at the enacted micro-purchase level of \$2,500 for most cardholders within the activity.

Many activities commented that the volume of transactions has increased exponentially as many more nonprocurement personnel were issued cards under FASA. Consequently, the number of purchases transacted has increased, requiring more audits

and reconciliation by APC assigned personnel. Likewise, as the number of transactions has increased, the number of disputes filed has also increased proportionately. The bottom line is that the more transactions that are conducted the more the administering effort within the activity reconciling these transactions. A smaller number of respondents commented that RMBCS has been very efficient in adapting to the increase in the volume of transactions as well as to the number of cardholders. RMBCS's infrastructure has sufficient controls so that increasing approving officials and cardholders has not significantly changed the program management within some contracting activities.

Many activities continue to inspect cardholders to ensure they are following procedures and that adequate controls are in place through the local cardholder operating procedures. Activities tend to encourage procurement and nonprocurement customers to use the card, but not at the expense of administrative burden. Administrative burden is cumbersome for many activities, since their customer base is spread among many departments. FASA has eliminated some required paperwork for individual transactions, such as the Buy American Act and Small Business Set-Aside program documentation. However, it appears that the paperwork reduction associated with these programs has not offset the additional workload needed for the increased cardholder/customer base and the increase in transactions.

**7. Question 4.**

How has the Micro-purchase Threshold and competition policy within FASA influenced the policies, procedures, and responsibilities within your organization?

## **8. Results.**

This question inquired about FASA's affect upon the purchase card program and specifically upon the competitive environment within the contracting activity's geographical location. Respondents have indicated that credit card customers have used the card with large vendors more than small businesses. Most small businesses have lost business as a result of FASA. Companies such as WAL-MART and K-MART offer cheaper prices and more convenience than their small business counterparts.

A large number of respondents (65 percent) indicated that local procedures and policies have been revised to reflect the FASA competition policy, specifically the elimination of the three bid rule and documentation for small business set-asides. Many remote contracting installations within DA stated that small businesses in the immediate vicinity of the contracting installation have suffered. Many will be forced to become more competitive or close as large businesses takeover the market. Additionally, increasing the Micro-purchase Threshold has forced many businesses to search for additional business, since they are no longer guaranteed a "fair share" of the market. However, customer processing time has decreased as credit card users purchase from the most convenient supply source without regard to small business set-asides. Most respondents view this as a positive change as nonprocurement personnel are offered a variety of reputable supply sources.

## **9. Question 5.**

What are some potential barriers or problems you foresee as a result of FASA?

## **10. Results.**

This question addressed the specific problem areas that are being encountered because of FASA. The objective was to identify specific issues that arise when implementing broad procedural changes within the Military Service purchase card programs. Most respondents were candid in their replies to this question and offered insight into both positive and negative attributes of implementation.

A large majority of respondents indicated that the biggest barrier was the lack of clear, concise guidance from the Military Service policy personnel. As of this writing, DON has distributed draft NAVSUP Interim Instruction 4200.85C. Both the Army and Air Force have issued interim FASA guidance. Many contracting activities across all Military Services have indicated that internal control procedures and program oversight continue to be the biggest obstacles for APCs. As the number of cardholders increase, oversight, audit, and reconciliation tasks will also increase exponentially. Bill payment procedures are a major problem as many activities still reconcile purchase transactions manually for lack of a better, standardized system. Some activities use local software applications for purchase and payment reconciliation; however, this is the exception not the rule.

Since implementing FASA within many contracting activities, management personnel, such as the APC, comment that the increased volume of credit card transactions has placed undue strain on personnel reconciling the transactions. In addition, the training effort for both procurement and nonprocurement personnel has forced the APC to make difficult decisions regarding personnel resource management.

The absence of DOD standardized training is still a major concern among field contracting activities. However, each Military Service has adopted a training program for its Service.

Another barrier was that FASA and micro-purchasing make it harder to accomplish headquarters established goals. Many activities within the Marine Corps stated that "with the authorization to utilize large businesses, small business goals must be adjusted." Many smaller activities also mentioned that, regardless of training, nonprocurement personnel will go to the quickest source of supply, regardless of price, ignoring the policies to use the supply system to the fullest extent possible. Likewise, with decentralization, respondents indicated that nonprocurement personnel abuse the card because the approving official and the APC lose visibility. APCs fear that the loss of visibility will hinder oversight capability and program effectiveness. Activities also fear that increasing the SAT and Micro-purchase Thresholds will force many local suppliers to compete nationally as FACNET becomes a reality for all simplified acquisitions.

#### **11. Question 6.**

What are some risks inherent within the purchase card program administering effort with regard to internal controls and implementation of the new Micro-purchase Threshold and SAT within FASA?

#### **12. Results.**

This survey question indicates FASA's impact on the workload and personnel resource decisions inherent within the purchase card program. The volume of credit card

purchases has increased dramatically as a result of the increase in the Micro-purchase Threshold. However, will the increase in transactions put undue burden on the APC and the administrative effort? The comments indicate that personnel shortages along with an increase in oversight responsibility caused many activities to restrict either the number of cards issued or the number of transactions. Likewise, issuing cards to nonprocurement personnel, encouraged by NPR and FASA, increased administrative oversight in conducting audits, reconciling statements, and training nonprocurement personnel in the proper usage of the card. The risk is that cards would be issued to nonprocurement personnel without the agency fully understanding the ramifications of their failure to provide adequate auditing and training. Additionally, internal controls such as purchasing limits and types of purchases are needed to control the number and types of buys. Respondents noted that proper training and foresight are key elements to implementing FASA.

APCs fear that nonprocurement personnel may not understand the ramifications of not rotating sources of supply and purchasing from a few, select vendors. Furthermore, APCs fear the card will be used to purchase items for personal use or items strictly forbidden to be purchased using the card, such as DON services. As a consequence, a handful of activities have opted to issue cards solely to purchasing buyers, and not to nonprocurement personnel. One activity stated that "90 percent of all transactions are audited after the fact." Only one respondent indicated that disciplinary action will be taken against improper card purchases. Actions such as approval officer notification and



suspension of card privileges were deemed necessary by this respondent to deter inappropriate card purchase actions.

Simplified acquisition procedures should be addressed separately as micro-purchases are treated independently of simplified acquisition purchases. The changes within FASA are specific to micro-purchases; simplified acquisition purchase procedures have not changed tremendously since enacting FASA. Competition and small business set-aside procedures have remained intact for all purchases above the micro-purchase level of \$2,500. Most activities acknowledged that FASA will not tremendously affect simplified acquisitions using the purchase card since documentation and requirements have not eased.

**13. Question 7.**

Will the increase in the Micro-purchase Threshold and SAT positively impact the number of purchases made with the purchase card? Yes No Why?

**14. Results.**

(See graphical presentation of responses in **Figure 3**)

This question describes the impact on the number of credit card purchases as a result of increasing the Micro-purchase and SAT Thresholds. Respondents within all Military Services were split as to this impact. As depicted in **Figure 3**, 37 percent replied positively, 37 percent replied negatively, and 26 percent were undecided. The respondents who replied positively indicated that the number of purchases would increase as the number of cards issued increase. Nonprocurement and procurement personnel would not be limited to small businesses for micro-purchases, which would increase the

number of purchase card transactions. Processing time would decrease significantly due to the reduced paperwork and technical screening.

The respondents who replied negatively indicated that the number of transactions will not increase; many of the purchase card program responsibilities will simply be transferred to the cardholder vice the procurement activity. A few activities indicated that their programs were already at the new threshold. They did not see any increase in the number of transactions. One activity stated, "There should not be any significant change. The majority of our cardholders have a \$2,500 single purchase limit. Only two

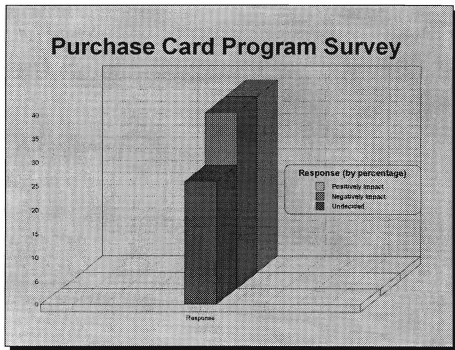


Figure 3

of our eighty-two cardholders are purchasing personnel and have higher limits."

Lastly, the respondents who replied undecided indicated that it was too early to develop any opinion. Statistics on the amount of transactions conducted using the purchase card were too incomplete to verify any trend. However, two activities did state that their program was implemented in July 1995. They would begin to track purchase card data for future trend analysis.

**15. Question 8.**

What areas of concern do you have with regard to the implementation of FASA upon the purchase card program at your activity? (e.g. training, specific drawbacks, transaction reconciliation, etc.) Why?

**16. Results.**

This question indicates the difficulties in the implementation process and any problems in the existing program that will increase under FASA. Problem areas such as reconciliation could be a major obstacle for management as the number of transactions increase. Many of the respondents indicated that the purchase card program was new to their contracting activity and was established as a result of the NPR and FASA initiatives. These replies could indicate the true effect of FASA and establishing a program of this magnitude.

Training seems to be the number one implementation obstacle. Activities must dedicate scarce human resources to train procurement and nonprocurement personnel in proper credit card procedures. Monitoring monthly statements from RMBCS requires man-hours that are not readily available in most activities. Reconciliation continues to be

a problem area as contracting activities manually reconcile statements and record purchase transactions.

Nonprocurement customers would tend to pick the closest supplier without considering the lowest cost, as long as they met the "fair and reasonable" criteria delineated within FASA. The Government would probably pay more for an item from a local supplier than from a larger, cheaper supplier outside the geographic proximity of the contracting activity. Many respondents indicated that availability would take precedence over price in most cases. Consequently, many contracting activities anticipated not meeting Small Business Set-Aside goals as a result of the waiver for micro-purchases below the \$2,500 threshold.

Consequently, reconciliation and normal transaction bookkeeping within the purchase card program will only be exaggerated as the number of transactions increase. Time and resources are precious assets for all DOD contracting activities. It appears that contracting activities are only willing to support the purchase card program as long as the procedures remain less time consuming for both the customer and procurement personnel. In time, FASA implementation has and will increase the workload for the approving/certifying official. Card use by cognizant departments not controlled by this agency (e.g. engineering department, supply department, public works department) will also require the approving/certifying official's time. This becomes a concern because, although the approving/certifying official work load is increased, statement processing time established by the GSA contract remains firm. Additionally, adequate internal program controls need to be in place to prevent fraudulent purchases as well as over

expenditure of funds. Many activities indicated that purchase card budgets need to be safeguarded to ensure centralized control and confirmation of adequate funding prior to a purchase card transaction.

It is important to point out that some respondents feel that FASA has not changed the purchase card program within their organization. As a matter of fact, many respondents felt that the purchase card program would be better utilized as a simplified acquisition payment vehicle rather than solely used as a micro-purchase instrument. Over 50 percent of respondents felt that the economies of scale for using the purchase card program for purchases above the Micro-purchase Threshold is less than many other procurement method. This is primarily due to the additional workload needed for simplified acquisitions above the Micro-purchase Threshold. Alternatively, the card could be used by procurement personnel as a payment vehicle since bill payment time and reconciliation could be reduced. On the other hand, activities across all Military Services felt that the purchase card would be as cumbersome as other procurement methods for purchases above the Micro-purchase Threshold. Competition, and set-aside and contract documentation requirements are still in place. It appears that respondents have decided to adopt the card for all simplified acquisitions. However, each contracting activity has made a tradeoff decision in assessing whether the additional program oversight is too cumbersome for the number of purchase card transactions. One respondent states:

The reconciliation process is cumbersome. The frustrating part of the program is getting the bill paid. It is still my contention that the purchase card program does not expedite the buy just the payment. Generally, it is on the

payment side that money is saved. Bill reconciliation is a detractor for customers signing on to the program; they would sooner let us make the buy and reconcile the bill for payment then have the convenience of the card. This office can buy just as fast as the customer could, without the reconciliation.

Consequently, a majority of respondents feel that the additional oversight, training, and internal controls do not outweigh the benefit of more timely, efficient, and effective micro-purchases. Many activities have shifted reconciliation responsibility to the customer, without centralized procurement oversight. For example, one activity reported that, "The purchase card program has cut PALT by about two-thirds of what it formerly took." Likewise, another activity stated, "We do about \$4 million per year using the credit card and we find that turnover and consistent training are key to a successful program. Internal pressure and decisions regarding the use of the card for illegal purchases has been a growing concern for management." As more satellite activities use the purchase card, there will ultimately be an increase in transfers and personnel turnover. Nonprocurement personnel will be forced to make key buying decisions within satellite stations.

**17. Question 9.**

Please feel free to make any other additional comments with regard to the purchase card program and the revised Micro-purchase Threshold and Simplified Acquisition Threshold (SAT)?

**18. Results.**

This question provided additional insight by allowing the activity to make

additional comments while promoting responses useful to analyzing the purchase card program. Numerous replies highlighted other problem areas and numerous strengths of the purchase card program implementation process.

One major concern voiced by contracting activities within remote geographical areas (approximately 30 percent) was that eliminating competition and small business set-asides for micro-purchases will hurt local small businesses. Local supply companies use to receive a large share of micro-purchases before FASA. Now companies like "Staples" and "Price Club" are gaining a larger share of micro-purchases as a result of FASA and, consequently, local suppliers will be eliminated from the market. On the other hand, some activities (approximately 45 percent) voiced that the Government has "hand fed" small businesses and paid higher prices for too long at the "expense of the taxpayer." Many commented that FASA finally allows each activity to get maximum use of each dollar by allowing large business to compete proportionately with small business.

As a final reply to this question, one respondent suggested not distinguishing between procurement and nonprocurement officials. This respondent indicated that all personnel should be held accountable to the provisions delineated in FAR Part 3.104, requiring procurement integrity certification. This would alleviate the necessity for issuing two types of delegation documentation--a delegation letter for nonprocurement officials vice a Certification of Appointment (SF-1402) for procurement officials. This was seen as an unnecessary administrative burden. All cardholders should receive ethics training and execute the procurement integrity certification.

**19. Question 10.**

What are some recommendations you would make regarding the use of the purchase card program?

**20. Results.**

This question investigates other options and alternatives to the purchase card program, specifically identifying some possible program strengths and weaknesses. It also identifies key areas for future research and indicates how effectively the program is being managed and whether the customer is satisfied with the program.

Most respondents to the questionnaire (52.3 percent) commented that the program lacks uniform reconciliation software for tracking purchases and bill payments through the RMBCS. This continues to be a cumbersome and time consuming process at most contracting activities, increasing required personnel resources. It is an administrative burden for activities employing an outdated method of transaction reconciliation. It would be advantageous for GSA and the Military Services to investigate and possibly develop a uniform software program for reconciliation and bill payment processing. Some activities within DOD have used off-the-shelf, local programs for this processing. They could be used as prototypes for developing a DOD standardized system.

Another area of contention was streamlining the purchase process. As a whole, most respondents felt that FASA was a "refreshing step in the right direction," which has promoted the purchase card program within DOD and eliminated many unnecessary restrictions in the program administration. Establishing the Micro-purchase Threshold at \$2,500 and the Simplified Acquisition Threshold at \$50,000/\$100,000 was considered a



sensible decision. Eliminating the Small Business Set-Aside and competition requirements, such as the three bid rule for micro-purchases, has allowed both procurement and nonprocurement personnel to use the card in a very effective, efficient, and flexible manner. The purchase card has become the instrument of choice among respondents for all DOD micro-purchase transactions.

As a simplified acquisition instrument for purchase transactions below the \$50,000 threshold, the purchase card has become primarily a payment vehicle for contracted transactions. Likewise, the purchase card program provides the customer with a feasible tool for making consolidated, quick, and efficient payment transactions. Moreover, the respondents feel that the program is not currently a feasible alternative for most transactions above the Micro-purchase Threshold due to the additional administrative workload and competition requirements imposed with these transactions. It is not the first choice among contracting officers and will continue to be too cumbersome for most simplified acquisitions.

It is important to note that this appeared to be the consensus among activities operating programs with annual sales over \$1 million. The alternative methods for conducting transactions of this type, such as the purchase order, Blanket Purchase Agreement (BPA) call, delivery or task order, and Purchase Order-Invoice-Voucher (SF-44) are considered as effective, efficient, and economical as the credit card. Most customer activities have expressed that restrictions within all Military Services, and particularly the paperwork requirements, have reduced the credit card program's effectiveness as a simplified acquisition instrument.

### **C. METHODOLOGY OF TELEPHONE INTERVIEWS**

This part of the chapter will present responses obtained from telephone and personal interviews. The interviews provided feedback as to the implementation of FASA and the purchase card program from a managerial perspective. Unlike the questionnaire, interviews involved senior procurement officials above the APC level. There was an effort to diversify the responses across all Military Services. Senior DOD procurement officials were interviewed as well. Many of the management personnel interviewed were from the same activities that responded to the questionnaire.

Interviews were conducted informally with latitude given as to the comprehensiveness of the response. Conversation was not limited solely to the prepared questions but included alternative questions as the interview evolved. This allowed for a larger response base and offered additional insight into the purchase card program implementation process. A majority of the responses were insightful as well as informative. Many of the officials cited numerous problem areas and items needing discussion. Openness and sincerity was the norm throughout all interviews.

The interview responses along with the results of the questionnaire will be analyzed in Chapter IV. A list of the questions used for the telephone and personal interviews is provided in Appendix C.

### **D. TELEPHONE INTERVIEW RESPONSES (TELEPHONE INTERVIEW QUESTIONS FOLLOWED BY RESPONSES)**

#### **1. Question 1.**

How has the increase in the Micro-purchase Threshold and Simplified Acquisition

Threshold (SAT) impacted the management effort within your activity? What management responsibilities have changed since the enactment of FASA?

**2. Response.**

This question highlighted the difficulties and potential problems that have been encountered by contracting managers as a result of changing FASA thresholds. Almost all contracting managers expressed that their biggest concern was that almost all transactions would be below the new SAT. Consequently, procurement managers felt that the purchase card program could be used for micro-purchases but felt that simplified acquisitions above the Micro-purchase Threshold would be conducted via normal procurement instruments, such as BPA calls and purchase orders. The purchase card program was seen by most managers as a positive alternative for micro-purchases but not without risk.

There was also fear amongst many managers that nonprocurement personnel required additional oversight. Abuse would be inherent within any established program and internal controls were needed. Most managers felt that nonprocurement personnel outside of contracting would test the internal controls and audit procedures. This would require procurement personnel oversight, over and above normal duties.

**3. Question 2.**

How has FASA impacted PALT within the procurement organization and specifically the volume of purchases made using the purchase card?

**4. Response.**

Managers agreed that PALT would decrease as the purchase card is used for

micro-purchases but stated that they expected the volume of purchase card transactions to increase dramatically. Nonprocurement personnel would not hesitate to initiate a procurement action without regard to price. As a result, there would be a tradeoff among field contracting activities as procurement personnel would process requirements more quickly but not without a cost. Audit and oversight of nonprocurement workcenters would require procurement personnel resources. APCs indicated that their biggest concern was lack of control and increased risk of cost overruns.

Simplified acquisitions above the Micro-purchase Threshold would not change dramatically since most responses indicated that the purchase card is not a viable alternative for these procurements. Many activities with established card programs were very successful in implementing FASA. Most activities already had established purchase card thresholds around the micro-purchase level of \$2,500. Many of the newer card programs were more reluctant to use the card for purchases above \$2,500; most of their transactions were between \$500 and \$2,500. The fear of abuse and internal oversight prevented many activities from promoting the card throughout their customer base. It was quite evident that risk and fear were the major tradeoffs for new card program implementation. Reduced PALT was not enough incentive for most contract managers, even with an increase in the volume of transactions conducted.

**5. Question 3.**

Do you feel that FASA has positively impacted the purchase card program within your organization? If not. Why?

**6. Response.**

There were mixed responses to this question. Many respondents felt that their program was outstanding and that FASA has had no impact. Conversely, many respondents felt that FASA incentivized using the program for many more procurement transactions. Therefore, it was difficult to draw any conclusions as to the overall impact FASA has had on the program. Many of the contract managers who have used the program for many years were more adaptable to subsequent changes FASA introduces in the program. Newer program managers were more reluctant to expand card use for fear of inherent administrative problems.

**7. Question 4.**

Is your procurement activity operating more efficiently since adopting the use of the purchase card and specifically since the increase in the Micro-purchase Threshold to \$2,500? Why?

**8. Response.**

Most managers interviewed felt that their organization operated more efficiently since expanding purchase card use. Specifically, program managers felt confident with nonprocurement personnel using the card after receiving the minimum required training. Procurement personnel were able to attend to more time consuming transactions requiring expertise in competition and technical sampling. Conversely, program managers for new programs felt more reluctant and thus did not advocate the efficiency the card could promote. When interviewing contracting managers, it became

evident that there was a direct relationship between card use and the efficiency of the card within the contracting organization.

**9. Question 5.**

How have customers reacted since promoting the use of the purchase card to nonprocurement personnel?

**10. Response.**

Most APCs interviewed (65.4 percent) felt that customers were very adaptable to using the card. Many workcenters outside contracting felt that the card allowed them flexibility along with expediency. The absence of competition and paperwork requirements makes the card very attractive to nonprocurement personnel. The ease with which the card is used allows nonprocurement personnel the independence to procure items as required without additional administrative workload. However, this was not universal among all activities. Many nonprocurement personnel were not willing to accept the additional risk inherent in using the card, including audits and internal controls.

Many activities still preferred that procurement personnel use the card and remain accountable for procurement actions. It was apparent that the additional risk outweighed the ease in using the card in these cases. It was easier to "pass the responsibility" than accept additional procurement accountability.

**11. Question 6.**

Do you feel that there are more (or less) internal controls as a result of the enactment of FASA? Why do you think this is so? How about the payment reconciliation effort?

## **12. Response.**

This question determined FASA's resultant effect on internal controls. How have contracting managers dealt with the recent legislation? Most respondents interviewed (54 percent) felt that internal controls needed to be tightened as a result of FASA. Particular emphasis was placed on auditing and subsequently reconciling transactions by nonprocurement personnel. Many managers determined that the internal controls hindered the card's potential usefulness within their activity. However, this was not a universal feeling among all managers. Many (54 percent) experienced APCs commented that the maturation of their program allowed for less control and oversight since most workcenters utilizing the card had received adequate training and were confident with the program's advantages. It appeared that many APCs at activities with a proven performance history were not affected drastically by the new legislation and threshold increases.

Delegation of responsibility seemed to be a major concern for all managers. Workcenters, such as engineering and logistics, tend to issue the card freely to as many customers as possible within their organization. Delegation authority was a major point of contention with most procurement supervisory personnel since the nonprocurement personnel allocated cards received a limited warrant for micro-purchases. Accountability for the purchases was a major concern for all personnel managing the program.

## **13. Question 7.**

How has small business within your geographical area been affected since the enactment of FASA and specifically how has the lack of competition affected your

decision for award with regard to the "price reasonableness" criteria delineated within FASA?

**14. Response.**

Most activities interviewed were concerned with the lack of support for local small business. Many activities, particularly in the Army and Air Force, were located within remote areas in the midwest and southeast. Local communities rely on the Government for business, right or wrong. Larger companies, such as WAL-MART and K-MART, offer convenience and a larger product base. This attracts a larger share of micro-purchase business. DON field contracting activities were more reluctant to state whether there was an impact on "price reasonableness" since there were no historical data to support this contention. However, almost all field contracting activities within DOD stated that a larger percentage of the customer base would utilize the larger companies for convenience, without a direct regard for "price reasonableness." It appears that "price reasonableness" criteria outlined within FASA are secondary to convenience for customers utilizing the card.

**15. Question 8.**

Have your local procedures and instructions changed dramatically since the inception of FASA with the purchase card program?

**16. Response.**

Over half of respondents stated that local procedures have changed either by external influence, such as within their Military Service, or by managers within the contracting activity. Most activities have adopted Military Service interim



implementation guidance. Many DON field contracting activities have utilized interim guidance issued by the Naval Supply Systems Command. They had numerous comments regarding its usefulness. Other Services have relied on letters of instruction and interim manuals. Few activities have drafted and implemented local procedures within purchase card programs. The few activities which did draft independent guidance had mature programs; implementation guidance only reinforced existing procedures. These activities were confident that local procedures and instructions covered any contingencies created by FASA legislation.

**17. Question 9.**

Do you feel that the Military Service FASA guidance with regard to the purchase card program has been clear, concise, and easy to implement within your activity?

**18. Response.**

It was difficult to determine the outcome to this question from interviews. Most activities had not implemented Service guidance and were in the process of promulgating new program instructions at the time of the interview. Most Navy field contracting activities did in fact receive interim FASA guidance and had begun to implement guidance with some success. However, initial feedback from the field indicated that there were numerous concerns. Video teleconferencing between the field and headquarters provided direct feedback to policy makers. Some areas of contention within DON were exclusions from using the card to purchase ADPE, services, and hazardous waste removal. Another concern was extraneous paperwork required for transactions above the Micro-

purchase Threshold. Finally, a third concern was the overall internal payment reconciliation procedures and internal controls.

**19. Question 10.**

Please feel free to make any additional comments or suggestions with regard to FASA and the purchase card program?

**20. Response.**

Most activities within all Military Services stated that support for the card has grown exponentially. Since the inception of NPR and FASA, the card has become a "household" procurement instrument within the acquisition field. It exemplifies the streamlining potential within contracting and has contributed to the sudden support for less regulation and more innovation within field contracting activities. Many respondents indicated that the potential benefits of using the purchase card, not only for purchases but for payments, has been supported by all Military Services. Procurement officials within DOD have commented that the potential benefits of payment by purchase card are impressive for transactions between \$2,500 and \$100,000.



#### **IV. ANALYSIS AND INTERPRETATION OF DATA COLLECTED**

Since its beginning in 1988, the purchase card program has grown dramatically within DOD. Currently, the SAP/FACNET implementation team has drafted implementation language to incorporate within FAR Part 13. It seems as though the implementation language should be incorporated in the FAR by the end of CY 1995. Draft implementation language has been distributed for comment from field contracting activities as well as headquarters administering sites throughout DOD.

It is apparent from this research that the purchase card is a popular micro-purchase instrument which provides an easy procurement method. The increase in the Micro-purchase Threshold (\$2,500) will increase the micro-purchase transactions made with the card. It is obvious that the Governmentwide Commercial Purchase Card Program can help agencies improve their purchasing and payment processes through reduced paperwork, prompt receipt of items, improved management information and audit capability, and a reduction in the number of invoices and inquiries about payments. This chapter will elaborate on these areas in detail.

The commercial purchase card is especially beneficial when used for purchases at or below the Micro-purchase Threshold. This provides contracting personnel with a fast and efficient means to purchase small dollar items that support their mission. Under FASA, agencies may use commercial purchase cards for supplies and services at or below \$50,000, or \$100,000 when a procuring activity has a certified FACNET contracting system. One of the major drawbacks of the commercial purchase card program is the

lack of standardized guidance and established procedures within the FAR. Each agency using the Governmentwide Commercial Purchase Card Program is required to establish procedures for using and controlling the cards. This contributes to a lack of managerial control among many activities using the card, particularly if the contracting activity has no current procedures in place. FASA has accelerated the need for standardized procedures to implement and control the purchase card program. At the forefront of the implementation process is the ability to control which items are purchased, particularly for Micro-purchase Threshold items. Abuses have been noted among numerous contracting activities. Fraud and abuse with the card is inherent within the program. Individual contracting activities have to determine the acceptable level of risk for their contracting activity. Nonprocurement personnel are particularly subject to scrutiny. Most of these personnel lack any formal training in small purchase procurements.

FASA has indicated growing concern as to the specific guidance necessary to effectively manage the credit card program. The number of transactions will increase as a result of FASA and the increase in the Simplified Acquisition Threshold. The commercial credit card is a viable alternative which will undoubtedly become the preferred choice among small purchase activities. However, the efficiency and paperwork reductions have to be weighed heavily against the additional workload and management controls that will have to be monitored and enforced. Rewriting FAR Part 13 and specifically adding separate subparts for third-party drafts, options, and the commercial purchase card will give individual agencies latitude regarding implementing procedures.

Many of the problems discovered over the five years since the beginning of the credit card program have become exponentially worse after FASA. In addition to management controls of purchases, automating of bills within the requisition system will continue to hinder successfully implementing FASA within contracting activities. The credit card bills received by contracting activities are manually tracked in a log reconciled with the bill received from RMBCS. The inability of RMBCS to interface with the contracting activities' requisition history database prohibits automated reconciling and contributes to a burdensome procedure for obligation liquidation. FASA will undoubtedly create additional workload for the obligation liquidation reconciliation process. The manual intervention of personnel in the reconciliation process will ultimately lead to unliquidated obligations and an insurmountable workload for many contracting activities. However, the credit card's efficiency more than compensates for the additional workload currently placed on the contracting activities.

Another important change implemented by FASA was exempting micro-purchases from the Small Business Set-Aside and the Buy American Act. This will allow contracting activities to use the commercial purchase card program for many additional transactions without exclusively limiting prospective sellers to small business. The contracting activities will have freedom to choose the quickest, most efficient vendor when satisfying mission requirements. Moreover, the administrative cost of verifying that prices at or below the Micro-purchase Threshold are reasonable may more than offset potential savings from detecting instances of overpricing. Likewise, exempting the Buy American Act has allowed contracting activities to purchase items without regard to origin

of production. This offers activities overseas and in contingency operations the flexibility they need to purchase items abroad. Micro-purchases have become user-friendly and convenient for overseas destinations.

Another area within FASA that warrants discussion is Section 27 of the Act.

This section states [Ref 8: p. 135]:

Government officers or employees are not considered procurement officials if their contracting authority does not exceed the Micro-purchase Threshold in Far 13.101, and the head of the contracting activity, or designee, has determined that it is unlikely that the officers or employees will conduct acquisitions in a total amount greater than \$20,000 in any 12-month period.

This provides contracting officers with the freedom to use the credit card in many situations, maximizing the customer interface. This provision allows nonprocurement personnel to routinely procure small purchase items from local vendors. This will free many labor-hours normally required for selecting vendors, obtaining price quotes (normally three), and expediting delivery or pickup of the items. In field contracting offices, this will streamline small purchase transactions and improve customer service. Imprest funds and BPAs normally require an additional administrative effort, both internally and with the vendor. Eliminating small business competition at or below the Micro-purchase Threshold allows the contracting activity to satisfy the requirement through the most expeditious means provided they satisfy "price reasonableness" criteria. This will significantly decrease the Procurement Administrative Lead Time (PALT) for most small purchase activities.

Increasing the Simplified Acquisition Threshold (SAT) to \$50,000 (\$100,000 with certified FACNET) will ultimately make the commercial purchase card a viable procurement method for over 90 percent of today's procurement activity [Ref 7]. This percentage is based on a threshold of \$100,000 and current purchase activity data. The problems encountered with the purchase card program have all become larger. Problems include management controls, administrative controls, training programs, inadequate automated data processing capability, and finally personnel constraints within the contracting activities. The prospect of using the purchase card for a majority of the buys under \$100,000 is unrealistic until the problem areas are addressed. The oversight required for purchases at or below \$2,500 is minor when compared to the oversight required for purchases at or below the \$100,000 Simplified Acquisition Threshold. The inadequacy of the liquidation of obligations within most activities, and the inherent problems with purchase oversight, introduces significant fraud and abuse within most contracting activities. Current manual records keeping techniques are inadequate to handle the workload.

Standard training procedures for all nonprocurement and procurement personnel are needed. Standardized training will allow procurement personnel to obtain better oversight capability and detect fraudulent activity more quickly. Fraudulent purchase card use is inherent with the program unless procurement officials are held accountable for procurement violations. The inadequacy of the spending limits on the purchase cards lends itself to abuse at most contracting activities. It is important to point out that the supplier has a responsibility to screen all card purchases. If individual cardholders



exceed spending limits, the supplier is responsible for terminating the transaction and denying use of the card. Reliability in screening the spending limit at the time of purchase will help control card abuse. Past history indicates that most abuses occur when nonprocurement personnel exceed their spending limit and use the card for frivolous items. This is not to say that procurement personnel do not exceed their individual spending limits. However, internal audits and strict accounting controls are more often in place for procurement personnel thus assuring a more continuous accountability system than the "after the fact" reviews of nonprocurement personnel spending. The same controls need to be enforced for designated procurement officials and nonprocurement officials conducting larger buys.

It is evident that many of the concerns in administering the purchase card program have been compounded since enacting FASA. Specifically, internal controls, risk, and oversight of the program are major concerns for managers of field contracting activities. It is apparent from the survey and telephone interviews that the purchase card program can become the preferred instrument for small purchase procurements within DOD. However, this in no way detracts from the genuine concerns that contracting management have regarding oversight and personnel commitment. There is no question that the purchase card program streamlines the procurement process for micro-purchases. But does the streamlining come at the expense of increased oversight, auditing, and internal control over both procurement and nonprocurement personnel.

Many activities indicated that necessary controls have been in place since the establishment of the program. However, this is not uniform among all DOD activities.

Many activities are beginning to discover the card and are implementing the program after the Micro-purchase Threshold increased. Conversely, the increase in the Simplified Acquisition Threshold (\$50,000/\$100,000 with certified FACNET) has had little, if any, impact on the purchase card program within DOD. This is primarily due to the fact that the card does not streamline the procurement process for transactions above \$2,500. Competition, documentation, and substantiation criteria are not waived for these transactions. Military Services believe that the purchase card program will be used primarily for micro-purchases, unless the card is used as a payment mechanism for transactions above the Micro-purchase Threshold. The purchase card can be used for transactions above the Micro-purchase Threshold, but the documentation is as prohibitive as alternative procurement methods, such as BPAs, SF-44s, and purchase orders.

Standardized training has been developed by most Military Services. DON, under the guidance of the Naval Supply Systems Command, has adopted an eight-hour training program for all credit card users. This has significantly improved the way DON trains personnel for the program. Standardized training throughout DOD will become a reality as the number of card purchases increases and the contracting activities express concern in this area. Navy, Army, and the Air Force have issued revised guidance on using the purchase card program under FASA. All Military Services acknowledge that uniform procedural guidance is necessary to properly implement the program. Many of the past shortcomings in written guidance have been corrected by issuing individual Military Service guidance. The next step should be to consolidate the individual instructions and adopt a uniform DOD Instruction for the purchase card program. DON

and DA have addressed simplified acquisitions adequately in their latest instructions.

As the number of activities using the program increase within DOD, more emphasis will be placed on improving interim guidance. The budgetary impact has been felt by all DOD activities as the DOD Comptroller has decreased budgets in proportion to the savings expected from using the card. Is this justified? Most activities tend to disagree. Much of the savings in reduced paperwork have been offset by both increased administrative workload and oversight and training procurement and nonprocurement personnel.

It is important to point out that there are potential benefits from paying bills with the purchase card. The following are just a few of the benefits:

- Fewer invoices and better control of expenditures
- Reduced risk to the Government
- Less risk of dealing with a non-responsible firm
- In markets for which the purchase card is a customary method of payment, a broader vendor base
- The Government receives a rebate from the purchase card company based upon the volume of total purchases made with the card

However, there are some drawbacks to using the card in this application. The first drawback is transaction reconciliation within the finance office. There are systemic problems with tracking transactions to the proper fund cite. Another drawback is that credit cards are not an accepted method of payment in every market. Lastly, vendors

typically forfeit a percentage of the purchase price to the bank for every transaction paid by a purchase card. Therefore, many vendors do not accept purchase cards.



## V. CONCLUSIONS AND RECOMMENDATIONS

The Federal Acquisition Streamlining Act of 1994 (FASA) has created two new procurement "systems" [Ref 10 ]. Micro-purchases rely heavily on the purchase card program for streamlined small purchase transactions. The Simplified Acquisition Threshold, which ultimately increases to \$100,000, encompasses over 90 percent of all Government procurement activity. Both of these changes allow contracting activities additional freedom and choices of procurement methods. It is evident that there are many methods for obtaining supplies or services within the Micro-purchase Threshold of \$2,500.

The Government commercial purchase card is only one method available to procurement personnel. Procurement personnel are authorized to use Blanket Purchase Agreement (BPA) calls, Standard Form 44 (SF-44) Purchase Order-Invoice-Vouchers, over-the-counter purchases either out of imprest funds or by third party drafts, delivery orders, and finally purchase orders. The SF 44 is a multi-purpose form that can be used as a purchase order, receiving report, invoice, or public voucher. It is a pocket-size form designed for on-the-spot, over-the-counter purchases of supplies and nonpersonal services while away from the purchasing office or at isolated activities. The FAR specifically provides that "micro-purchases" may be awarded using any of the above listed purchasing methods, as covered by FAR Part 13. However, the FAR also strongly encourages the Government commercial purchase card and electronic purchasing techniques for such purchases. Personnel need to evaluate the type of purchase to be

made and decide the best purchase instrument given the complexity and urgency of need. One should select the method that is most suitable, efficient, and economical given the acquisition's circumstances. Generally, one should only use the SF-44 for purchases above the Micro-purchase Threshold when there is unusual urgency, such as a contingency operation overseas. FASA legislation has increased the Simplified Acquisition Threshold to \$200,000 for purchases supporting a declared contingency operation outside the United States.

Likewise, the purchase card has grown to be the preferred micro-purchase method within DOD. It has specifically gained support within DOD to pay for supplies and services. You may use the card to pay for transactions up to SAT as authorized by your agency.

#### **A. CONCLUSIONS**

Conclusion 1. The purchase card is a user-friendly method of purchasing supplies and services within the Micro-purchase Threshold. DOD field contracting activities are beginning to use the card as a primary vehicle for micro-purchases. The card offers an efficient and effective means to make micro-purchases. The card has decreased PALT within most contracting activities when compared to conventional procurement methods, such as the SF-44, BPA, and imprest fund.

Conclusion 2. The purchase card program involves risk, which many APCs view as a barrier to widespread implementation. Approving officials need to audit and enforce strict internal controls over card use. Fear of abuse and lack of oversight prevent many activities from allowing more workcenters to use the card. Mature purchase card

programs continue to expand their cardholder customer base where less mature programs are reluctant to expand card use.

Conclusion 3. Training is the key to a successful program. DON has implemented an effective way to control the training within the purchase card program. Prospective cardholders and approving officials whose delegated authority exceeds \$2,500 must successfully complete at least one of the following courses:

- Purchasing Fundamentals (PUR 101); or
- Contracting Fundamentals (CON 101)

In addition, refresher training is required at least every three years for cardholders and others involved in the process to ensure they understand contracting authority and comply with local operating procedures. All Military Services have adopted requirements for training. Air Force has similar minimum requirements for cardholders and approving officials. Prospective cardholders must successfully complete similar courses. Training and documentation have become even more prevalent within credit card programs under FASA. Training should be the initial step when establishing the purchase card program within any field contracting activity.

Conclusion 4. FASA has had a significant impact on small businesses. The exemption for micro-purchases has changed the way contracting activities conduct business. Ease and customer convenience has impacted the local purchase transactions. It is inconclusive whether small businesses will be able to compete with larger retail outlets



such as WAL-MART and K-MART. Small businesses will have to adapt if they are to survive in the micro-purchase market.

Conclusion 5. Implementing Military Service specific guidance for purchase card transactions has limited uniformity. Standard operating procedures are unique within each field contracting activity. It is apparent that uniform guidance from DOD would prevent further ambiguities in the implementation guidance. The Military Services have written guidance, which has outlined specific training requirements and administration guidelines. However, Military Services have interpreted many items differently (e.g. ADPE, services).

Conclusion 6. The increase in the SAT has not significantly impacted purchase card use for procurements above the Micro-purchase Threshold and below the SAT. Purchase card use for procurements above the Micro-purchase Threshold but below the SAT has remained stable. Through acquisition reform, DOD officials have advocated the card to pay for simplified contracting actions. Likewise, DOD has supported the card as an alternative for other procurement instruments above the Micro-purchase Threshold. However, Military Service requirements for documentation and competition have not been waived. Consequently, the purchase card is not the preferred choice among procurement instrument alternatives. Most field contracting activities prefer using the more conventional procurement alternatives for these transactions. However, most activities realize that the purchase card will probably never become the primary simplified acquisition procurement instrument.

Conclusion 7. Policies, procedures, and oversight within the DOD differ among the Military Services. Field contracting activities have issued individual standard operating procedures within the guidelines of their Military Service. Agency Program Coordinators (APCs) within DOD differ with respect to oversight and internal controls. FASA has only reinforced the disparity among field contracting activities. Mature purchase card programs continue to advocate and expand purchase card use. Newer programs are more reluctant to expand card use and spending limits particularly to nonprocurement personnel.

Conclusion 8. The SAP/FACNET drafting team is a great opportunity to implement standardized guidance within DOD. Including experienced Military Service representatives within the team lends itself to revised guidance that could be uniform throughout DOD. This was apparent from the drafting team's interim rule FAR coverage. The SAP/FACNET drafting team created an environment to facilitate dialogue and exchange of ideas. The feedback from the Military Services indicates that this is a step in the right direction for future acquisition reform implementation. Any forum which provides for direct exchange and feedback between the Military Services is the correct approach for rewriting the FAR.

## **B. RECOMMENDATIONS**

Recommendation 1. DOD should develop and implement standardized guidance with respect to the Governmentwide Commercial Purchase Card Program. This means integrating Military Service purchase card guidance and creating dialogue among all programs. This is essential to the purchase card program's future and will allow for

uniform implementation. This does not mean that individual field contracting purchase card programs will lose their freedom to initiate controls they feel are needed. However, this will allow a basic framework on which all Military Services can build. Feedback and communication between the field and headquarters is essential throughout this standardization process.

Recommendation 2. DOD should develop standardized training requirements for all Military Services. Military Services have developed minimum training requirements for procurement and nonprocurement personnel within the purchase card program. These minimum standards are adequate for successful implementation. However, standardized training within DOD would reinforce the need to train all personnel within the purchase card program and facilitate uniform instruction across all Military Services. Training seems to be a way to reduce risk within the program, particularly when addressing nonprocurement personnel abuse of the card. Approving officials and APCs view training as the number one way to reduce risk in administering the program.

Recommendation 3. DOD should petition all field contracting activities to develop and implement uniform reconciliation software for the purchase card program. Many mature programs have developed and are using individualized software programs for payment tracking and reconciliation. This continues to be an area of concern among APCs and approving officials. Activities which do not have automated software packages are relying on manual reconciliation methods. This is cumbersome and time consuming.

Recommendation 4. DOD should promote purchase card use as the primary vehicle for all contract payments below the SAT. This is especially true for transactions above the Micro-purchase Threshold and below the SAT. It could save scarce dollars in contract payment reconciliation. It is important to market the purchase card as the preferred micro-purchase instrument and simplified acquisition payment vehicle. The purchase card lends itself to this role because of its streamlined process for acquisition payment.

Recommendation 5. DOD should utilize satellite broadcasting and video teleconferencing to provide feedback to senior acquisition reform officials. Feedback from field contracting activities is invaluable to implementing acquisition reform. It provides a forum for direct dialogue with the APCs and program contract managers. It is important to point out that Air Force and Army have been promoting this feedback throughout their implementation efforts. DON has started to become more proactive in this approach. They have begun to utilize this approach consistently in many of their acquisition reform efforts. The latest NAVSUP Interim Instruction, 4200.85C, Shore and Fleet Simplified Acquisition Procedures and Micro-purchase Procedures, is a perfect example of innovation and open dialogue with the field. As of this writing, it has been distributed for comment and revision.

### **C. ANSWERS TO RESEARCH QUESTIONS**

Primary Research Question How will the Federal Acquisition Streamlining Act (FASA) of 1994 impact the current administrative procedures, policy, and responsibilities of the Governmentwide Commercial Purchase Card Program within the Department of

Defense? It is evident from this research that DOD's administrative procedures, policy, and responsibilities supporting the Governmentwide Commercial Purchase Card Program have increased due to FASA. However, the results are not uniform within all field contracting activities. Many mature purchase card programs within DOD adapted well to the changes and FAR implementation language. Many of the less mature programs did not adapt as well. Experience with the program allowed many activities to accept changes and anticipate audit and control problems more quickly than newer programs. Nonetheless, NPR and FASA have affected most activities in some way. Contracting managers and APCs tend to be somewhat conservative in implementing changes and are particularly reluctant to decentralize card use due to the additional audits required.

Military Service guidance has not been uniform within DOD. DON has issued the most comprehensive guidance for FASA; Air Force and Army have issued guidance which was more advisory in nature. In any case, implementation guidance is still interim. Military Services are receiving feedback on recommended changes as field contracting activities begin to implement FASA. Most DOD activities with mature programs have anticipated threshold changes and implemented necessary changes before formal policy guidance was issued. Other activities were more reluctant to implement any changes. It is imperative that DOD issue standardized guidance for all Military Services. Uniform implementation guidance would alleviate confusion among program managers. The lack of uniformity within the Military Services has left activities to interpret language very differently within their service. DON has taken a conservative approach to implementation guidance; Army and Air Force have been more liberal in their

interpretations. Standardized guidance would promote more effective card use and remove some of the ambiguity with respect to APC's procedural instruction.

Subsidiary Research Question 1. How will the new Micro-purchase Threshold (\$2,500) and competition policy influence the current procedures, policies, and responsibilities of the Governmentwide Commercial Purchase Card Program within the Department of Defense? It is apparent that the new Micro-purchase Threshold and competition policy has influenced DOD's current program procedures, policies, and responsibilities. Most activities have been positively influenced by the threshold increase. Most activities within DOD welcomed the increase in purchase card buying authority and revised current procedures to reflect the increases prior to formal implementation guidance. Likewise, the competition policy, Small Business Set-Aside, and Buy American Act changes influenced the way and by whom the credit card is used. The competition waiver for micro-purchases has "opened the door" for non-procurement personnel to use the cards without regard to competition. Additionally, the absence of requirements of the Small Business Set-Aside program and Buy American Act has allowed activities to use the card liberally for all types of purchases. This has allowed many activities to promulgate very flexible and easy to use procedural guidance.

Subsidiary Research Question 2. What risks does the Department of Defense face in administering and managing the Commercial Purchase Card Program after implementing FASA through Federal Acquisition Regulation (FAR) and Defense Federal Acquisition Regulation Supplement (DFARS)?

There are numerous risks inherent within the program. Internal procedures and audit

responsibilities are primarily left up to the activity. The biggest risk APCs foresee is card use by nonprocurement personnel. Along with this risk comes the responsibility for overseeing and controlling the transactions. Most activities view this negatively. DOD has been reluctant to issue any standardized guidance concerning audit and internal controls. In addition, many activities fear that decentralizing the purchase function away from the procurement personnel is too risky. Managers of mature programs are willing to undertake the changes in procedures and issue cards more freely than less mature programs.

The increase in the Micro-purchase Threshold has increased the number of purchase card transactions. Smaller activities tend to be more flexible with respect to risk and card use by nonprocurement personnel. Larger activities are less willing to accept the additional risk and fear that fraud and card abuse will limit card use by nonprocurement personnel. Risk seems to be the overriding factor for most large programs. Approving officials feel more comfortable with fewer card users. Large activities are more decentralized and tend to incorporate more card users per approving official. This means more risk.

Subsidiary Research Question 3. What are some recommendations for successfully implementing and using the General Services Administration (GSA) Governmentwide Commercial Purchase Card Program. Successful implementation guidance begins with feedback and open communication with the field contracting activities. Successful implementation begins by identifying the barriers within the purchase card program and breaking those barriers with flexible guidance. Confusion

reigns as the interpretation of delegation authority and issuance of cards is not uniform within the Military Services. It is important for DOD, and specifically the SAP/FACNET implementation team, to issue DOD-wide guidance. The Military Services need to gather input from activities and discuss alternatives for implementation. The SAP/FACNET forum is ideal for promoting a single, streamlined guidance for DOD use.

Subsidiary Research Question 4. What barriers and possible difficulties will be encountered within the Governmentwide Commercial Purchase Card Program as a result of the increase in the Simplified Acquisition Threshold (SAT) (\$50,000/\$100,000) within FASA? Increasing the SAT has not had a significant impact upon the purchase card program. Most DOD field contracting activities have not had trouble implementing the SAT increase. All Military Services have changed procedural guidance to reflect the SAT increase, and particularly to designate the purchase card as the preferred payment method. Existing clauses, competition, and set-aside requirements still apply to all purchase card transactions above the Micro-purchase Threshold. Implementation language within the Military Services establish the card as an alternative simplified acquisition instrument.

#### **D. AREAS FOR FURTHER RESEARCH AND DEVELOPMENT**

There are many areas that could be investigated within FASA and specifically within the purchase card program. This is a high profile area, increasing in visibility within the Government contracting environment. DOD has accepted the purchase card program as a viable alternative for micro-purchases. The purchase card has become the DOD preferred choice for payment of all simplified acquisitions. Additional research



should be conducted by acquisition professionals familiar with Government contracting challenges. Some further areas of study follow:

- Study existing activities within DOD after FASA implementation language is finalized. Research the impact of existing procedural guidance and conduct an efficiency study of FASA and the purchase card program. Research the ramifications after implementing FASA and draw conclusions.
- Examine the procurement workforce and determine the impact FASA and the purchase card program has had on workload. Conduct research as to whether the 1105 contracting professional series has been positively or negatively affected as a result of FASA.
- Examine the current training for nonprocurement personnel in the purchase card program. Determine whether training is adequate and has achieved program objectives. Determine whether DOD is adequately training nonprocurement personnel.
- Develop a risk assessment concerning the purchase card program. Determine whether DOD contract managers minimize risk within the program and conduct research within field contracting activities to develop a viable risk minimization plan.
- Study the competition policy for micro-purchases utilizing the IMPAC program. Determine whether the FASA implementation guidance has increased or decreased field contracting activities payments for micro-purchases. Are small businesses affected by the new FASA legislation?





## **APPENDIX A. ACRONYMS**

ADPE - Automatic Data Processing Equipment

APC - Agency Program Coordinator

ATM - Automatic Teller Machine

DA - Department of the Army

DFARS - Defense Federal Acquisition Regulation Supplement

DOD - Department of Defense

DON - Department of the Navy

DPR - Defense Performance Review

EDI - Electronic Data Interchange

FACNET - Federal Acquisition Computer Network

FAR - Federal Acquisition Regulation

FASA - Federal Acquisition Streamlining Act

FY - Fiscal Year

GSA - General Services Administration

IMPAC - International Merchant Purchase Authorization Card

NPR - National Performance Review

PALT - Procurement Administrative Lead Time

RMBCS - Rocky Mountain Bankcard System, Incorporated

SAP - Simplified Acquisition Procedures

SAT - Simplified Acquisition Threshold

USA - United States Army

USD (A&T) - Under Secretary of Defense for Acquisition and Technology

USN - United States Navy

## APPENDIX B. QUESTIONNAIRE

### Purchase Card Program Questionnaire

1. How has the increase in the Micro-purchase Threshold (\$2,500) and Simplified Acquisition Threshold (SAT) (\$50,000/\$100,000) within the Federal Acquisition Streamlining Act (FASA) of 1994 impacted the use of the purchase card within your activity?

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2. What purchase card program policies were/will be revised within your activity as a result of FASA? (Procedures or changes? Responsibilities modified?)

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3. How has the purchase card program administering effort changed within your organization as a result of FASA?

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4. How has the Micro-purchase Threshold and competition policy within FASA influenced the policies, procedures, and responsibilities within your organization?

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5. What are some potential barriers or problems you foresee as a result of FASA?

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6. What are some risks inherent within the purchase card program administering effort with regard to internal controls and implementation of the new Micro-purchase Threshold and SAT within FASA?

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7. Will the increase in the Micro-purchase Threshold and SAT positively impact the number of purchases made with the purchase card? Yes No Why?

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8. What areas of concern do you have with regard to the implementation of FASA upon the purchase card program at your activity? (e.g. training, specific drawbacks, transaction reconciliation, etc.) Why?

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9. Please feel free to make any other additional comments with regard to the purchase card program and the revised Micro-purchase Threshold and Simplified Acquisition Threshold (SAT)?

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10. What are some recommendations you would make regarding the use of the purchase card program?

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## APPENDIX C. TELEPHONE INTERVIEW QUESTIONS

1. How has the increase in the Micro-purchase Threshold and Simplified Acquisition Threshold (SAT) impacted the management effort within your activity?  
What management responsibilities have changed since the enactment of FASA?

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2. How has FASA impacted PALT within the procurement organization and specifically the volume of purchases made using the purchase card?

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3. Do you feel that FASA has positively impacted the purchase card program within your organization? If not. Why?

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4. Is your procurement activity operating more efficiently since adopting the use of the purchase card and specifically since the increase in the Micro-purchase Threshold to \$2,500? Why?

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5. How have customers reacted since promoting the use of the purchase card to nonprocurement personnel?

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6. Do you feel that there are more (or less) internal controls as a result of the enactment of FASA? Why do you think this is so? How about the payment reconciliation effort?

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7. How has small business within your geographical area been affected since the enactment of FASA and specifically how has the lack of competition affected your decision for award with regard to the "price reasonableness" criteria delineated within FASA?

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8. Have your local procedures and instructions changed dramatically since the inception of FASA and the purchase card program?

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9. Do you feel that the Military Service FASA guidance with regard to the purchase card program has been clear, concise, and easy to implement within your activity?

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10. Please feel free to make any additional comments or suggestions with regard to FASA and the purchase card program?

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